

THE INSURANCE Insider

SPECIAL REPORT

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Lloyd's closes Goshawk Syndicate 102

Goshawk's Syndicate 102 has been placed in run-off following discussions with Lloyd's and the Financial Services Authority

In an announcement to the London Stock Exchange this morning (31 October), Goshawk Insurance Holdings plc confirmed that Syndicate 102 has been placed into "immediate run-off".

The announcement follows recent attempts by the board of Goshawk to agree the transfer of the loss struck Syndicate to a separate Lloyd's managing agency. Lloyd's insurers who had entered into discussions or due diligence proceedings in recent months are thought to have included Amlin and Chaucer. But without an acceptable deal on the table, Goshawk explained in a statement today: "Lloyd's informed Goshawk that in Lloyd's opinion a transfer of the management of the syndicate is very unlikely to proceed and has required Goshawk Syndicate Management to cease underwriting on behalf of the syndicate."

FSA

The statement continued: "This action has been taken in close conjunction with the Financial Services Authority as regulator of both the Society of Lloyd's and Goshawk Syndicate Management Limited and in accordance with the Supervision and Enforcement Co-operation Arrangements."

Sources suggest Goshawk's management were surprised by the speed of Lloyd's and the FSA's decision because they hoped they had a further week to rescue the Syndicate.

Lloyd's will now retain Syndicate 102's funds at Lloyd's to cover its £47.4mn liabilities (as at 30 June 2003). The Syndicate has lodged some £45mn of cash and securities at Lloyd's and will also contribute a further £20mn to collateralise a letter of credit facility with Barclay's Bank.

The insurer's statement continued: "The majority of the expenses incurred in closing down the Group's Lloyd's operations not attributable to Syndicate 102 are expected to be charged to the Group's profit and loss account during the current financial year. The net charge to the Group's profit and loss account resulting from this restructuring will be taken in the current financial year and an early estimate is expected to be in the region of £35 million. However this should result in an area of significant financial uncertainty being resolved."

Share price

Goshawk's share price remained stable at 33.5p in early morning trading. The company will be left with its separately capitalised (\$260mn) Bermudian reinsurance subsidiary, Goshawk Re, which analysts estimate is worth around 40p per share.

Lloyd's explained: "Despite working with Goshawk's management and imposing significant underwriting restrictions it has not been possible to resolve a number of problems. Lloyd's has taken this action in the best interests of the Society and of the syndicate's

policyholders, whose financial security will not be affected by this decision.

"Lloyd's will work closely with Goshawk to ensure an orderly run-off of the business."

Syndicate 102's woes reflect the consequences of a series of poor underwriting decisions including legal expenses, exposures to The Accident Group, a complicated US viaticals account and losses in the cargo division.

Uncertainty

According to London based Stockbrokers Altium Capital, the decision "removes the single largest area of uncertainty within the business and Goshawk's liability itself, as a corporate member of Syndicate 102, is broadly limited to the regulatory capital it has. Providing the costs of doing this are not prohibitive, we believe this should help the shares short-term".

Altium estimates that Goshawk Insurance Holding's net tangible assets will fall from £120mn to £101.2mn once the letter of credit has been provided for. This reduced NTA per share to 57p, Altium estimates.

On Monday (3 November), *Insider Week* will provide a full analysis.

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